Role of Microfinance in Women Empowerment:

A comparative study of the rural and urban poor in Pune district (Maharashtra)

The enclosed document is a research proposal prepared as per the requirement of the Doctoral Program conducted by the Symbiosis International University

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(Ms Raji M Ajwani)1

I. Introduction:

Financial services for the poor, often referred to as microfinance, cannot solve all the problems caused by poverty. But they can help to put economic resources and power into the hands of the poor and low-income people enabling them to make their own financial decisions and thus solve the problem of poverty. The potential is enormous and so is the challenge. Inclusive finance ,including products that encourage savings, appropriately designed loans for the poor and low-income households and for micro ,small and medium enterprises, and appropriate insurance and payment services can help people to enhance incomes, acquire capital, manage risk and come out of poverty (United Nations,2006). The Rangarajan Committee Report-2008 has defined financial inclusion as "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by the vulnerable groups such as the weaker section and low income groups at an affordable cost." Microfinance programs have the potential to transform economic power relations and empower the poor—both men and women.

A 2001 survey by the Special Unit on Microfinance of the United Nations Capital Development Fund (SUM/UNCDF) of 29 microfinance institutions revealed that approximately 60 percent of these institutions' clients were women. Six of the twenty nine focused entirely on women. Among the remaining twenty-three mixed-sex programs, 52 percent of clients were women[2]. The study also showed, however, that those programs offering only individual loans or relatively high minimum loan amounts tended to have lower percentages of women clients. These findings affirm the importance of designing appropriate financial products for women. According to USAID's annual Microenterprise Results Report for 2000, approximately 70 percent of USAID-supported MFIs' clients were women. Considerable variation among the regions was seen, however, with percentages of women clients ranging from 27 percent in the Far East to 87 percent in Asia. In Eastern Europe, where USAID has traditionally supported individual-lending programs, the percentage of women clients dropped as low as 48 percent in 1999 [3]before rising to 54 percent in 2000, when USAID began to support more group-lending programs offering smaller loans[4].

1 Doctoral Candidate: Roll No 100003 Symbiosis International University, Pune.
[2]Rani Deshpanda. Increasing Access and Benefits for Women: Practices and Innovations among Microfinance Institutions—Survey Results (New York: UNCDF, 2001),
3.
[3] USAID. Reaching Down and Scaling Up: Focus on USAID's Development Partners: USAID

II. Microfinance: International Economic Background:

The microfinance 'movement' has its connections rooted in history. The Desjardins Credit Union5 movement was founded in Quebec at the beginning of the 20th century. By 1944 the 'caisses populaires' (credit unions) were 877 in number with total assets of 88 million Canadian dollars, covering the entire province of Quebec. Between 1944 and 1971 the federation achieved a common MIS, put into place a supervision framework and had reached a total asset base of a billion Canadian Dollars. The organization is still going strong and the model has since been replicated in various countries with varying degrees of success. COFAC, ACAC, FUCAC in Uruguay were born out of an effective consolidation of a number of credit unions into federations.

Before the financial crisis of 1997, Indonesia could boast of having one of the most developed microfinance sectors in the world with deep market penetration6. As of December 1998, there were a total of 2,260 BPR's with around 4 million clients, accounting for 0.4% of total bank assets in the country. Post the financial crisis, the BPR's[7] supported by the Bank of Indonesia saw an increase in the number of depositors (from 17 to 23 million),virtually no increase in loan delinquency and continued to generate adjusted returns of over four percent on total assets. The Peruvian Banking Superintendency has set up a special department to oversee more than 30 MFI's including Cajas Rurales, Cajas Municipales, Edpymes (transformed NGO's) and credit unions. In Peru, MFI's can easily charge interest rates that permit them to pass costs to the clients although the Superintendency has not yet decided to pass the full cost of supervision onto the MFI's. FINCA International and Financiera Compartamos, Mexico had a village banking model originally that represented the Indian SHG model. However over time the model was changed. Mexico gradually moved to a model where the groups never repaid their loans but continued to borrow greater amounts for onward lending .In this model FINCA assumed an operational role lending a permanent support, providing the critical product, standardization, training, liquidity and supervision required to keep the system functioning.

III. Microfinance: South Asian Perspective:

Smt Ila Bhat pioneered the microfinance movement in the continent by setting up the Self Employed Women's Association or SEWA as it is popularly known in 1972.It was set-up as a trade union and its main goals are to

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Microenterprise Results Reporting for 1999 (Arlington, Va.: Weidemann Associates, 2000), 22.
[4] USAID. Microenterprise Development in a Changing World: U.S. Agency for International Development
Microenterprise Results Reporting for 2000 (Arlington, Va.: Weidemann Associates, 2001), 31.
[5] Desjardin Website,History
[6] Steinwand, Dirk, 2001, Robinson, Marguerite.The Microfinance Revolution, V2.
[7] The term Bank Perkreditan Rakyat (people's credit bank) is a generic term that may refer to four different types of small financial institutions : BKDs, LDKPs, old style BPRs and new style BPRs. Their history and the services they provide to their clients is different for each, some are deposit-taking only, other are only providing credit, and some do both.The term BPR may designate secondary banks (in opposition to commercial banks) such as the Badang Kredit Desa (village-owned credit organizations) and Lumbung Desa (village savings and loan institutions) that began to appear in the early 1900s. Their first goal was to promote agriculture by providing loans to farmers and as demand for money rose in other sectors, non-agricultural businesses were later included

organize women workers for full employment. Full employment means employment whereby workers obtain work security, income security, food security and social security (at least health care, child care and shelter)8

SEWA is both an organization and a movement. The SEWA movement is enhanced by its being a sangam or confluence of three movements: the labour movement, the cooperative movement and the women's movement.

In neighboring Bangladesh, Nobel Laureate, Mohammed Yunus started the ' Grameen Bank' (literally translated means "Bank of the Village", The bank began as a research project by Yunus as a Rural Economics Project at Bangladesh's University of Chittagong to test his method for providing credit and other banking services to the rural poor. In 1976, the village of Jobra and other villages surrounding the University of Chittagong became the first areas eligible for service from Grameen Bank. The Bank was immensely successful and the project, with support from the central Bangladesh Bank, was introduced in 1979 to the Tangail District (to the north of the capital, Dhaka).

The bank's success continued and it soon spread to various other districts of Bangladesh. By a Bangladeshi government ordinance on October 2, 1983, the project was transformed into an independent bank. Bankers Ron Grzywinski and Mary Houghton of ShoreBank, a community development bank in Chicago, helped Yunus with the official incorporation of the bank under a grant from the Ford Foundation. The bank's repayment rate was hit following the 1998 flood of Bangladesh before recovering again in subsequent years. By the beginning of 2005, the bank had loaned over USD 4.7 billion and by the end of 2008, USD 7.6 billion to the poor.[9]

The Bank today continues to expand across the nation and still provides small loans to the rural poor. By 2006, Grameen Bank branches numbered over 2,100. Its success has inspired similar projects in more than 40 countries around the world and has made World Bank to take an initiative to finance Grameen- Bank type schemes

The bank gets its funding from different sources, and the main contributors have shifted over time. In the initial years, donor agencies used to provide the bulk of capital at very cheap rates. In the mid-1990s, the bank started to get most of its funding from the central bank of Bangladesh. More recently, Grameen Bank has started bond sales as a source of finance. The bonds are implicitly subsidized as they are guaranteed by the Government of Bangladesh and still they are sold above the bank rate.

[8] SEWA: website
[9] Grameen Bank website

IV. Microfinance in the Indian Context:

The roots of the microfinance industry as it exists in India today can be traced back to the mid-1970 when some prominent NGO's such as MYRADA and PRADAN started using the SHG model as a platform for social mobilization. The earlier models of lending to the poor were characterized by state-sponsored programs such as the Integrated Rural Development Program (IRDP) which were in line with the social welfare agenda of the state. The emphasis was on keeping the cost of the credit to the poor artificially low through interest-rate ceilings, but this resulted in low levels of institutional lending to the segment.

However in the 1990's, the Grameen Bank model and the ASA model promoted by the Association for Social Advancement, both from Bangladesh found rapid acceptance among the newer breed of microfinance institutions in India. Known as the 'on-lending' models they had the capacity for rapid up-scaling in terms of client reach. They were less dependant on donor or grant funds and enabled the institutions to borrow capital from larger institutions and then passing on the actual service charge to the individual borrowers while retaining a margin for its own growth. These models also spawned the growth of NBFC's and for profit institutions. The SHG model in the form of the SHG-Bank Linkage (SBLP) initiated in the early 1990's by NABARD and the rapidly growing MFI on-lending model both dominate the microfinance industry today.

V. The Indian Banking Sector's tryst with Social Banking: An Overview (Post Independence to date):

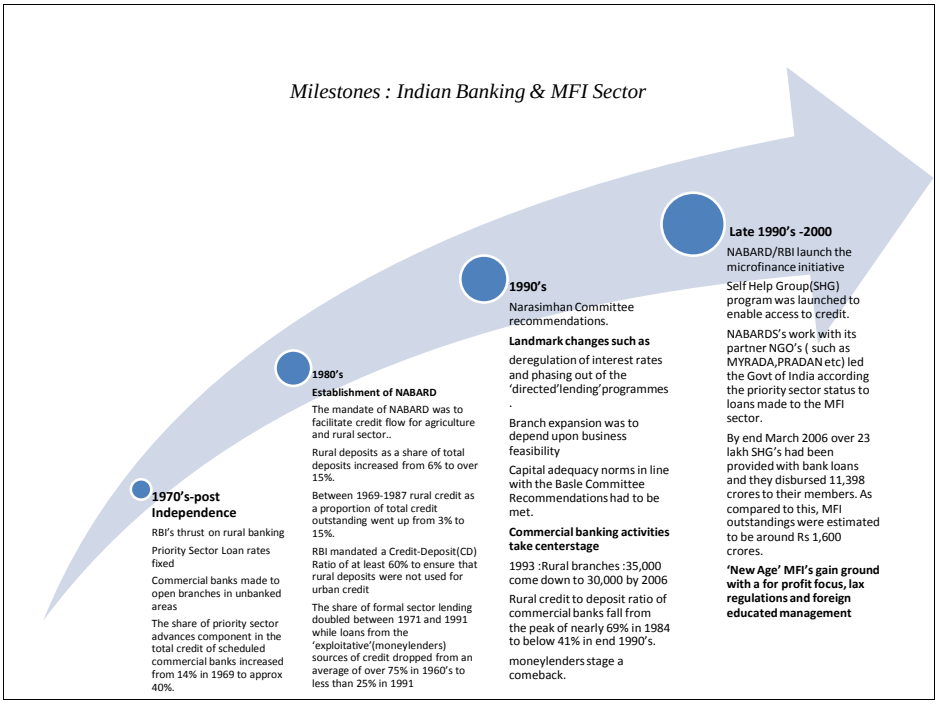
Following bank nationalization in 1969, there was a rapid expansion of banking business in rural India (at an average annual rate of 15.2 per cent), about double the rate of growth of branches in the semi-urban (6.4 per cent), urban (7.8 percent) and metropolitan areas (7.5 per cent) during 1973-1985 (Basu and Srivastava, 2005).

The share of bank business in rural household debt was barely 2.4percent until 1971. Following bank nationalization, this share rose to 29 percent in 1981 and that of all formal or institutional sources (including cooperatives) reached 61.2percent in 1991. About 41percent of the rural households have a deposit account and 21 percent have access to some form of credit from a formal source. Banks are the largest source of formal finance for rural households, but it's largely the richer households who have benefitted from the expansion of rural banking, as 66 percent of large farmers have deposit accounts and 44 percent have access to credit. By contrast, 70 percent of the marginal/landless farmers do not have a bank account and 87 percent do not have access to credit from a formal source (Base and Srivastava, 2005)

A World Bank-NCAER (Rural Financial Financial Access Survey-2003) found that the poor typically borrow for unexpected contingencies such as death, sickness, accidents etc from relatives/friends and local money lenders. As per the survey, over 90 percent of such expenses were financed with the cash at home, the second largest source was relatives/friends and the local money lender. New sources such as Kisan Credit Cards cover a small fraction. Access to other financial services such as insurance is also limited as 82 percent of the rural households surveyed did not have any insurance policy

There are marked differences in the distribution, with considerably lower access in the economically backward regions. Banks find lending to the poor very risky since irregular income streams and repayment schedules can drive up the default risk. There is also a difficulty in securing collateral from the poor. Moreover the rural borrowers are reluctant to borrow from banks because of the elaborate documentation procedures, illiteracy, lack of proper service meted out in branches and the total time involved in making a trip to the bank. All these factors added up increase the cost of borrowing from the banks (Basu and Srivastava, 2005).

Illustration #1: Milestones in the Indian Banking & MFI Sector


Milestones : Indian Banking & MFI Sector
1970's-post Independence
RBI's thrust on rural banking
Priority Sector Loan rates fixed
Commercial banks made to open branches in unbanked areas
The share of priority sector advances component in the total credit of scheduled commercial banks increased from 14% in 1969 to approx 40%.
1980's
Establishment of NABARD
The mandate of NABARD was to facilitate credit flow for agriculture and rural sector..
Rural deposits as a share of total deposits increased from 6% to over 15%.
Between 1969-1987 rural credit as a proportion of total credit outstanding went up from 3% to 15%.
RBI mandated a Credit-Deposit(CD) Ratio of at least 60% to ensure that rural deposits were not used for urban credit
The share of formal sector lending doubled between 1971 and 1991 while loans from the 'exploitative'(moneylenders) sources of credit dropped from an average of over 75% in 1960's to less than 25% in 1991
1990's
Narasimhan Committee recommendations.
Landmark changes such as
deregulation of interest rates and phasing out of the 'directed'lending'programmes .
Branch expansion was to depend upon business feasibility
Capital adequacy norms in line with the Basle Committee Recommendations had to be met.
Commercial banking activities take centerstage
1993 :Rural branches :35,000 come down to 30,000 by 2006
Rural credit to deposit ratio of commercial banks fall from the peak of nearly 69% in 1984 to below 41% in end 1990's.
moneylenders stage a comeback.
Late 1990's -2000
NABARD/RBI launch the microfinance initiative
Self Help Group(SHG) program was launched to enable access to credit.
NABARDS's work with its partner NGO's (such as MYRADA,PRADAN etc) led the Govt of India according the priority sector status to loans made to the MFI sector.
By end March 2006 over 23 lakh SHG's had been provided with bank loans and they disbursed 11,398 crores to their members. As compared to this, MFI outstandings were estimated to be around Rs 1,600 crores.
'New Age' MFI's gain ground with a for profit focus, lax regulations and foreign educated management

The above illustration traces the growth of the banking sector post nationalization. A key feature of this program was the thrust of bank branch expansion in the rural areas. In 1977 the RBI announced a new branch licensing policy which was prevalent until 1990[10].

The shift in the gear, in the early 1990's as propagated by the Narasimhan Committee was brought about mainly with the agenda to have an India ready to take flight into the global domain and have a competent, market driven and capital stable banking structure.

This paradigm shift combined with the external environmental factors prevalent therein such as the internet boom and the subsequent bust and the changing business practices has had far reaching impact on rural poor in India.

[10] Post 1990 and the Narasimhan Committee recommendations, the GOI opened the banking sector to private players. However banks are not permitted to close a rural branch if it is the only one serving a location

The shift away from the rural banking focus to a market driven approach brought the money lender back into the lives of the rural poor (refer Illustration 1 for the timeline of events in the Indian context). The gap thus created because of this shift and focus into mainstream commercial banking activities by the commercial banks and the regulator (RBI) coupled with lax regulations and the privileged (priority sector) status granted to loans advanced to the MFI sector, created a vacuum that was quickly filled by savvy 'new age' MFI's*(see Table 1).*

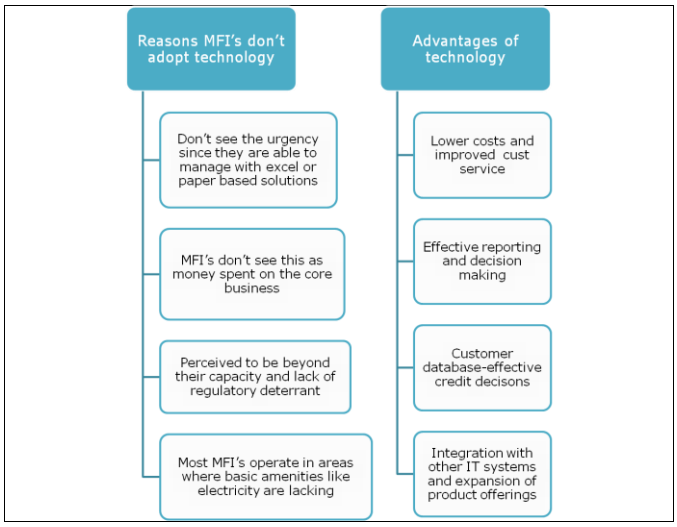
These for profit entities functioned like corporate's generating funds through interest rates that did not have an inbuilt development focus, but there were successful in bridging the gaps that banks had left open-of access and ease to funds. The PE investors that poured the money into such new age MFI's ensured that the profit motive remained at the forefront at all times. This led to various problems that grew and festered within the sector such as: multiple lending, usurious lending practices, lack of transparency about the operating procedures followed and the accounting policies.

The boiling point was reached when the Andhra Pradesh Government passed the Institutions Regulation of Money Lending Ordinance dated October 15 2010 which brought all MF activities to a halt in the state and the country. Banks have since stopped any further flow of funds to MFI's which has in turn stopped further loan disbursals to the poor and the needy. The stalemate still continues.

The dissonance between the various stakeholders viz the regulator (RBI/NABARD), MFI's and the end users was caused due to various factors such as methods of loan disbursal and collection deployed by MFI's, lack of any formal regulatory guidelines for the sector and a minimalistic use of technology in the entire value chain that binds the various stakeholders.

The sector still mainly uses manual processes *(see illustration # 2)* such as manual credit appraisal and disbursal techniques administered and driven by field staff (instead of a objective and statutorily controlled credit database/s), cash collections done manually contributing to a host of problems such as high operating costs, insufficient documentation, double lending, lack of proper loan repayment tracking and reporting mechanisms.

Illustration 2: Technology Usage by MFI's: Pros and Cons (Source: Author)


Reasons MFI's don't adopt technology
Don't see the urgency since they are able to manage with excel or paper based solutions
MFI's don't see this as money spent on the core business
Perceived to be beyond their capacity and lack of regulatory deterrant
Most MFI's operate in areas where basic amenities like electricity are lacking
Advantages of technology
Lower costs and improved cust service
Effective reporting and decision making
Customer database-effective credit decisons
Integration with other IT systems and expansion of product offerings

The comparative performance of the top 5 MFIs is given below. It highlights the super fast growth rate in terms of loan disbursals and client acquisition rate in 2008-2009

Table 1: Comparative Performance of Top 5 MFIs

	Clients (No mn)	Clients (No mn)	Growth Rate	Loans (Rs bn)	Loans (Rs bn)	Growth Rate
	2008	2009	%ge	2008	2009	%ge
SKS Microfinance	1.88	3.52	87	7.81	24.6	214
Spandana	1.19	2.43	104	5.95	18.7	214
Share Microfin	1.29	1.50	16	7.28	12.2	67
Bandhan	0.76	1.45	91	2.78	5.3	91
Asmitha Microfin	0.70	0.88	26	3.36	7.1	111

Data source: Microfinance India: State of the sector report by N Srinivasan, Sage Publications

VI. Microfinance Models in India –Approaches and Progress:

The two main models that are popular in the Indian context are the SHG Bank Linkage and the other model is the MFI model (basely loosely upon the Grameen Bank model).The comparative features of both the models are illustrated in the table 2 given below:

Table 2: Comparative Features of the Microfinance interventions:

Features	SHG	MFI
Clients	Mainly women	Mainly women
Group Size	15-20 clients per group	Usually 5 clients per group (organized into centers of 4-5 groups)
Services Offered	Savings and credit	Credit
Role of MFI Staff	Guide and facilitate	Organize & manage(groups dependant on staff)
Meeting Frequency	Monthly	Weekly
Savings Amount (Approx)	Rs 20-150 per month	Rs 10-30 per week
Interest rate earned on savings	Bank Rate + profit sharing on intra group disbursement	6-9per cent
Initial Loan Amt (Approx)	Rs 5-10,000	Rs 2-5000
Effective Interest Rate	24-28 per cent	32-36 per cent (may be higher)
Insurance	Sometimes loans linked to health and life insurance	Sometimes loans linked to health and life insurance

Source: Adapted from RBI note on Financial Inclusion

i. SHG Bank Linkage:

This approach gathered popularity in the 1990's based upon the impetus extended by the GOI through NABARD .Commercial banks were the channels of distribution and banks were encouraged to cultivate and lend to SHG's. To give a boost to this process, loans given to microfinance companies were classified as priority sector and NABARD provided refinancing to banks for loans given to SHG's.

As described in Table 2, the SHG's are given the freedom to decide upon the rate for loan distribution(usually 2-3 per cent per month).The SHG savings are housed in the bank, loans are given at (approx 12-14 per cent per annum). Both the group savings and the joint liability act as collateral. The default rates on loans given to SHG's are low as illustrated below:

Table 3: Agency-wise NPA's of Bank Loans to SHG's (as on March 31 2010) (Source: NABARD) :(Rs in Crore)

Agency	Outstanding Loans against SHG's	Amount of NPA's	%of NPA's to outstanding bank loans
CB's (PSU)	19724.42	513.53	2.60
CB's (Private Sector)	440.29	23.93	5.44
RRB's	6144.58	218.53	3.56
Cooperative Banks	1728.99	67.04	3.88
TOTAL	**28038.28**	**823.04**	**2.94**

The SHG Program and the credit disbursed through it have increased at a rapid pace. The number of new SHG's provided with bank loans rose from 42, 24,338 in 2009 to 48, 51,356 in 2010.This program continues to be heavily skewed in favor of the three southern states (Andhra Pradesh, Tamil Nadu, and Karnataka). The pro microfinance policies of the local governments plus the efforts of development institutions such as MYRADA, APMAS have contributed to this growth.

A joint study by (APMAS and EDA, 2006) carried out in Andhra Pradesh, Karnataka, Orissa and Rajasthan offers valuable insights into the functioning of SHG's. The study reported that 51per cent of the SHG members were poor (BPL), 53 per cent belonged to the SC/St category and 66 per cent of the SHG's were single caste SHG's.

One third had mixed caste membership and 72 per cent of the members had no schooling at all. In only 51 percent of the groups, the members had primary education. This acted as an impediment to book-keeping and

record maintenance. Record quality was good in 15 per cent of the groups, moderate in 39 per cent, weak in 40 per cent and unavailable for the rest Average monthly savings per member was Rs 45 and cumulative member savings were Rs 2400.the modal interest rate charged on loans to members was 2 per cent per month.77 per cent of the group members had borrowed from banks or federations at least once. The average age of the groups was 6 years.

Table # 4: Progress of Micro-finance Programmes (as at end March 2010) (Source: NABARD)

	SHG's		MFI's	
Item	**2009-2010 (Number in Mill)**	**Amount (Rs Core)**	**2009- 2010 (Number)**	**Amount (Rs Crore)**
Loans disb by banks	1.59	14,453	691	8,063
Loans o/s with banks	4.85	28,038	1,513	10,148
Savings with banks	6.95	6,199	NA	NA

ii. Microfinance Institutions (MFI)

The MFI model has worked well in the Indian context because of the reach and willingness of the MFI's to advance small amounts of loan to poor people at practically their doorsteps with basic documentation. The MFI's are intermediaries that either borrow from the banks for onward lending or facilitate the connection of banks with the needy people. The single most difference between and SHG and an MFI is that in the SHG concept, is that in an SHG concept the loan is advanced to the group which in turns decides upon its further use. Incase of MFI's the loan is given to the beneficiary directly.

The MFI keeps track of the loan amount, repayment and collections[11].the MFI model is characterized by diversity of forms. SEWA (Ahmedabad) was the pioneer in this area (it is registered as a trade union), several NGO's started operations with donor funding. Gradually financial institutions such as NABARD, SIDBI,

[11] It was the co-ercive collection practices of the MFI's that were blamed for the suicides in Andhra Pradesh This led to various problems that grew and festered within the sector such as: multiple lending, usurious lending practices, lack of transparency about the operating procedures followed and the accounting policies. The boiling point was reached when the Andhra Pradesh Government passed the Institutions Regulation of Money Lending Ordinance dated October 15 2010 which brought all MF activities to a halt in the state and the country. Banks have since stopped any further flow of funds to MFI's which has in turn stopped further loan disbursals to the poor and the needy. The stalemate still continues. The Malegam Committee that was set up subsequently had recommended that collections should be undertaken in a public location (eg: gram panchayat office) instead of the MFI agents visiting individual homes.

FWWB and Rashtriya Mahila Kosh started funding these NGO's which morphed into NBFC's in the 1990's. The priority sector status helped to attract funding from banks and shareholder equity (PE) started pouring in fuelled by the subprime crisis in the West and the relatively safe investment option.

As discussed earlier, the MFI sector is currently undergoing a lot of turmoil and the operations have virtually come to a standstill pending regulatory guidelines. Banks have paused lending to the MFI's. The SHG model has seen some diminishing action but because of its structure of direct linkages with the poor, banks are still continuing to lend to them albeit with some amount of caution.

Both the models have their pros and cons although the current crisis has enforced the superiority of the SHG model. A survey done by (Sinha, 2005) has offered some useful insights into the functioning of the SHG model. SHG's emerge as the preferred option in terms of flexibility of purpose, ease of access to loans, quick disbursal (sometimes) and part of being in the mainstream banking and hence access to other banking products.

However a disadvantage is that eligibility to getting loans has to be proved, since it's tied to the savings performance. Moreover generally banks don't encourage short term loans. MFI's on the other hand be more customer focused and make greater variations in their offerings to suit the customer demand

Despite the measures listed above poverty alleviation still remains a major concern in both rural and urban areas. In urban areas the problem has different dimensions, where the struggle is in trying to save and being eligible to get into the mainstream banking system. The indifferent attitude of the bank staff, elaborate documentation requirements compounded by the problem of illiteracy make getting bank access a huge deterrent to the urban poor.

The overall progress under microfinance during the last three years is shown in Table 5, given overleaf.

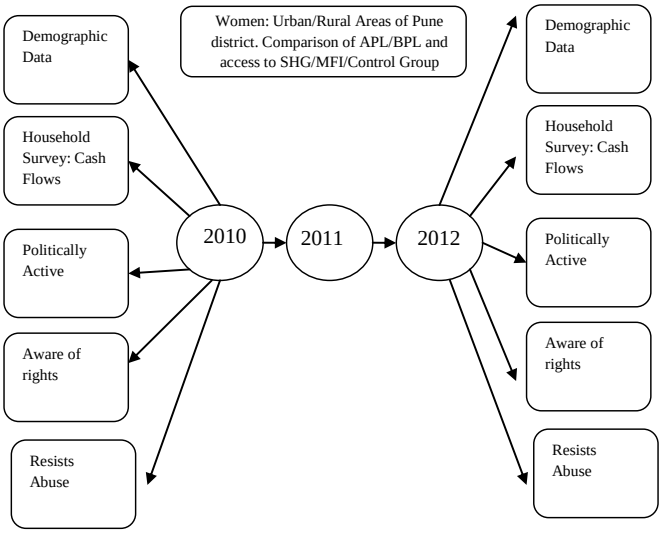
Table 5: Overall Progress under Micro-finance during the last three years (Rs Crores)

Particulars		2007-2008		2008-09		% Growth (2008-09)		2009-10		% Growth (2009-10)	
		No of SHG's	Amount	No of SHG's	Amount	No of SHG's	Amount	No of SHG's	Amount	No of SHG's	Amount
A. SHG-Bank Linkage Model											
Savings of SHG's with Bank as on March 31	Total SHG	5009794	3785.39	6121147	5545.62	22.2	46.5	6953250	6198.71	13.6	11.8
	Out of which SGSY	1203070	809.51	1505581	1563.38	25.1	93.1	1693910	1292.62	12.5	(17.3)
Bank Loans disbursed to SHG's during the year	Total SHG	1227770	8849.26	1609586	12253.51	31.1	38.5	1586822	14453.30	(1.4)	.17.9
	Out of which SGSY	246649	1857.74	264653	2015.22	7.3	8.5	267403	2198.00	1.0	9.1
Bank Loans O/S with SHG's on March 31	Total SHG	3625941	16999.91	4224338	22679.84	16.5	33.4	4851356	28038.28	14.8	23.6
	Out of which SGSY	916978	4816.87	976887	5861.72	6.5	21.7	1245394	6251.08	27.5	6.6

B MFI-Bank Linkage Model(Rs in crore)											
	2007-08		2008-09		Growth during 2008-09(%)		2009-10		Growth during 2009-10		
Particulars	No of MFI's	Amount	No of MFI's	Amount	No of MFI's	Amount	No of MFI's	Amount	No of MFI's	Amount	
Bank Loans disbursed to MFI's during the year	518	1970.15	581	3732.33	12.2%	89.4%	691	8062.74	18.9%	116.o%	
Bank Loans O/S: MFI's on March 31	1109	2784.84	1915	5009.09	72.7%	82.2%	1513	10147.54	(21%)	102.6%	

In recent years, government and non-government organizations (NGO's) in the developing countries like India have introduced a variety of programs offering financial services to low income households especially women. This is based upon the premise that women in poor households are more likely to face the credit crunch and lack the ability to get access to funds so as to undertake income-generating activities. Access to credit is an important link to help these women get a sedge way to get themselves and their families out of the clutches of poverty and other associated evils namely indebtedness, exploitation (at the hands of the money-lender) and domestic abuse etc

Figure 1: Path Diagram for the Proposed Study:



Several development interventions use income transfers or microfinance for income generation, as a way of inducing empowerment. The impact of microfinance on women empowerment has been well documented by comprehensive studies such as (Bali Swain 2007, Pitt et al. 2006, Goetz and Sen Gupta 1996, Hashemi et al. 1996), which show that credit programs lead to a greater value for women in household decision making, access to financial and economic resources, social networks, and greater bargaining power within the household and freedom of mobility.

(Browning and Chiappori 1998, Duflo 2003, Blumberg 2005) studied intra-household bargaining literature. They stated that economic factors were important for empowering women. An increase, in the value of female time and monetary income have been postulated to result in higher bargaining power and greater participation in

household decision-making. It also leads to greater investment in education, housing and nutrition for children (Duflo, 2003). Recent study conducted in developing countries however, show that transfers of income that are made to women only; do not automatically translate into increases in their bargaining power.

Given the cultural and social constraints imposed on the women in developing countries', women's autonomy or personal accumulation of resources may not necessarily result in empowering women on their own. Thus, though economic interventions are important, other development initiatives such as education, political quotas, awareness generation and property rights etc. are as essential for empowering women (Kabeer 2005, Malhotra and Mather 1997, Deshmukh- Randive 2003).

There are various underlying premises that guide microfinance programs. Some argue that women are among the most vulnerable and underprivileged section of any society .Others believe that investing in women's capabilities empowers them to make choices, which is valuable in itself and also contributes to the greater economic growth and development. .Evidence from literature also shows that an increase in women's resources results in higher well-being of the family, especially children. (Aghion and Morduch 2005,) have stated that an increasing number of microfinance institutions prefer women because they believe that they are better borrowers. However defining the meaning of the term empowerment can be a difficult exercise. (Bali Swain, 2007) have stated that although many agree that women's empowerment is an important development objective for microfinance programs, it's still unclear what empowerment means.

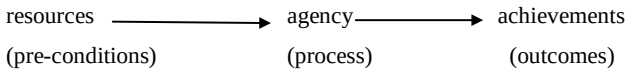
VII. Concept of Women Empowerment:

Naila Kabeer (1999) has explained the concept of women's empowerment as the process by which those who have been denied the ability to make strategic life choices acquire such ability.

This ability incorporates three inter-related dimensions and is defined as the ability to access current and future claims to both material and social resources. This includes decision-making, negotiation, deception and manipulation; and achievements that are the well-being outcomes.

Empowerment hence can be defined as a multidimensional process that enables women to realize their identity and power in all spheres of life. Empowerment provides greater access to resources, more autonomy in decision making, greater ability to plan lives and more control on the circumstances that influence lives. Stated succinctly empowerment is defined as "increasing poor people's freedom of choice and action to shape their own lives". (Narayan 2005).

According to Kabeer (1999) the ability to exercise choice can be thought in terms of three inter-related variables:



Resources include access to and future claims to both material and social resources; agency which includes the process of decision making, negotiation, deception and manipulation and achievements that are well being outcomes. Hence if this concept is applied in the context of microfinance, the resources are both material (financial) and non material (training, building social skills, confidence etc). The agency is the SHG/MFI and the outcome is an improved quality of life for the beneficiary. Since most microfinance activities are focused towards women, the study plans to evaluate the impact of these activities on them.

The interpretation of women empowerment and its measurement also varies across different studies. Ackerly (1995) created an indicator,"Accounting Knowledge" to measure the probability that the changes associated with empowerment intervene and have an impact. Goetz and Sen Gupta (1996) built an index of the Managerial Control in order to classify borrowers into five categories ranging from no control (no knowledge of the use of the loan or no contribution in terms of labor to the loan to the financed activity) on the one end of the spectrum versus full control of the use of the loan (complete control over the entire productive process including marketing).

VIII. Measuring Empowerment:

Given the complex nature of the definition of the term 'women's empowerment', its not surprising that only a few empirical studies have tried to examine and relate the impact of microfinance to/on women's empowerment. Various deterrents such as availability of data, reliability of the methods used in collecting responses that includes a comparable control group studied over a time period, add to the problem

The other problem lies with the methodology used to measure empowerment lies in the interpretation of the term itself .One approach used by some researchers is the practice of assigning weights and constructing an index of women's empowerment. However this approach has s drawback in it that the very importance of

assigning a hierarchy by assigning weight ages may be flawed. Responses in most cases are qualitative and there will be a problem in assigning a value and converting these qualitative responses to quantitative ones.

Most researchers, for instance, will agree that impact of a women's decision to buy a bar of soap for the family is different in nature from her participation in a decision to buy a piece of land. Both these decisions have different implications and magnitude of impact on her empowerment. As such giving equal weightage to both these decisions does not make sense. At the same time suggesting an arbitrary weight for these decisions is also inappropriate, as it is not for the researchers to decide the factor by which the latter decision contributes more to women empowerment.

In a comprehensive study, Pitt et al. (2006) used the Item Response Theory (IRT), where the element of analysis is the whole pattern of a set of binary indicators that proxy for woman's autonomy, decision-making power, and participation in household and societal decision making. They find that credit programs lead to women taking a greater role in household decision making, having greater access to financial and economic resources, having greater access to financial and economic resources, having greater social networks, more bargaining power vis-à-vis their husbands and having greater freedom of mobility.

Hashemi, Schuler and Riley (1996) investigated the change in women empowerment with the help of an ethnographic study and quantitative survey. The analysis used 1,300 women sample data to measure the effects of Grameen Bank and Bangladesh Rural Advancement Committee.

They created an empowerment indicator build on the following eight criterions: mobility, economic security, ability to make small purchases, large purchases, involvement in major household decisions, and relative freedom from domination by the family, political and legal awareness, participation in public protests and political campaigns. Another issue that needs further investigation is whether without change in the macro environment12, does microfinance reinforce women's traditional roles or does it promote gender equality?

A woman's practical needs are closely linked to the socially defined gender roles, responsibilities, and social structures, which contribute to a tension between meeting women's practical needs in the short-term and promoting long-term strategic change. By helping women meet their practical needs and increase their efficacy in their traditional roles, microfinance may in fact help women to gain respect and achieve more in their socially defined roles, which in turn may lead to increased esteem and self-confidence.

Therefore as Cheston and Kuhn (2002) have argued increased self-confidence does not automatically lead to empowerment, it may contribute decisively to a woman's ability and willingness to challenge the social

injustices and discriminatory systems that they face. This implies that as women become financially better-off their self confidence and bargaining power within the household increases and this indirectly leads to their empowerment. Finally, given that empowerment is a process, the impact of the microfinance program may take a long time before it is significantly reflected on the observable measures of women empowerment.

For the purpose of this study we intend to use the definition given by Kabeer (2005) in her study of the findings from South Asian region. Here, it is also important to make a distinction between general community development activity, outcomes that lead to a greater efficiency within the existing norms and outcomes that can be directly interpreted as women's empowerment (Bali Swain, 2007).For example: When a women performs household chores that help her to take care of her family in a better way, she is essentially performing a role of a care giver and household manager. This may lead to an increase in her self confidence; better nutrition for her kids etc but this does not necessarily lead to empowerment. Hence the empowerment effects of microfinance can be categorized into two main classes viz 'direct' and 'indirect':

According to (Bali Swain,2007) 'direct' empowerment takes place when women become members of a group and/or when they are exposed to training or workshops leading to creation of greater awareness[13].Microfinance also leads to an increase in women's empowerment through indirect channels. Browning and Chiappori (1998) showed that the he household's objective function takes the form of the weighted sum of individual utilities.

The individual weights can represent the bargaining power of the female members of the household versus the male members, in determining the intra household allocation of resources. In the literature it is assumed that by increasing the relative value of a woman's time and income, the corresponding weight and hence the bargaining power of the female members can be increased within the household. This is discussed in detail under the section Research Methodology

IX. Statement of the Research Problem:

India is a country on a growth trajectory. There has been a thrust by the GOI and the apex banking institution viz the RBI to promote financial inclusion. Women have been the focus of most of such programs yet there is a significant mismatch between the requirements of the women belonging to the urban and rural poor sections and the current financial interventions that are available.

[13] (Bali Swain, 2007) have stated that microfinance is administered to individuals via groups. Belonging to a group leads to the creation of social capital and support structure that empowers women to improve their overall (and not just economic) well being. Further most microfinance activities involve interaction with bank officials, keeping of financial records etc-these activities encourage discussions on such matters, mobility, literacy, confidence thereby improving the condition of the women in the family and in the village, thereby empowering them

The 'top-down' approach of the regulatory and banking agencies means that the products are designed at an apex level and then channelized through the existing branch and MF network to the eligible users. This study aims at doing the reverse and finding out what the base of the pyramid wants and whether the current financial (options) interventions empower women? The recent crisis in the sector prompted the RBI to constitute the Malegam Committee to study the issues and concerns in the MFI sector. The Committee submitted its report on January 19, 2011 and the RBI is expected to make policy changes impacting this sector as well as commercial banks shortly.

X. Scope of the Study:

The growth and development of SHG's in India has been tremendous. According to NABARD, the number of SHG's financed by banks in India has increased from 32,995 in 1991-93 to 2,476,492 in 2006-07.The loan amounts sanctioned grew from Rs 571 million in 1992-93 to 135,119 million in 2006-07.However poverty, unemployment ,illiteracy etc still exist . Moreover the proposed study plans to compare the differences between the rural and urban areas and across the two financial intervention alternatives (viz SHG & Microfinance) and control data (with access to neither option).

The .unique aspect of the study is that it aims to cover the APL and the BPL groups in the rural and the urban areas of the Pune district. A panel data covering the three year period of 2010(recall data), 2011 and 2012 will be considered. This comparison of such cross-sectional data for the state of Maharashtra has not been done before as per the literature reviewed.

The other major motivation to the study is the turmoil that is currently prevalent in the sector. The Andhra Pradesh Government passed the Institutions Regulation of Money Lending Ordinance dated October 15 2010 which brought all MFI activities to a halt in the state and the country. Banks have since stopped any further flow of funds to MFI's which has in turn stopped further loan disbursals to the poor and the needy. The stalemate still continues. The RBI has proposed regulatory changes (the Malegam Committee was instituted in this regard) and is likely to release notifications for banks shortly.

The third rationale is to study the situation at the grass root level taking inspiration from Collins et al. "Portfolios of the Poor" *How the World's Poor Live on $2 a Day* (Princeton University Press, 2009) .This book tackles the fundamental question of how the poor make ends meet. Over 250 families in Bangladesh, India, and South Africa participated in this unprecedented study of the financial practices of the world's poor.

These households were interviewed every two weeks over the course of a year, reporting on their most minute financial transactions. This book shows that many poor people have surprisingly sophisticated financial lives, saving and borrowing with an eye to the future and creating complex "financial portfolios" of formal and informal tools.

According to the study which was conducted, three needs drive much of the financial activity of poor households:

1. Managing basics: cash-flow management to transform irregular income flows into a dependable resource to meet daily needs.

2. Coping with risk: dealing with the emergencies that can derail families with little in reserve.

3. Raising lump sums: seizing opportunities and paying for big-ticket expenses by accumulating money.

To meet these needs, as a bare minimum, poor people have to undertake complex cash management and need financial services delivered in a reliable, convenient, flexible and structured manner. The basic requirements are:

1. A current savings account into which they can deposit, and withdraw from conveniently.

2. An emergency or general loan that can be taken and repaid quickly.

3. Recurring, commitment or contractual savings products.

4. A loan that can be used for a wide variety of purposes.

Stephen Sinclair (2001) has defined financial exclusion as the inability to access the necessary financial services in an appropriate form. Exclusion can come about as a result of problems with access, conditions, prices or self exclusion in response to negative experiences or conditions. Hence the proposed study plans to examine whether the financial interventions as being administered today, are adequate or not.

Financial inclusion (therefore aims at achieving the opposite result of financial exclusion) viz it aims at providing the availability of the items listed in number 1 to 4. The findings of the proposed study will be of relevance to all the stakeholders viz (bankers, NGO's, MFI, customers and above all the regulator)

The definition of BPL (Below Poverty Line) in rupee terms is stated as people living below USD 1.25 (PPP) per day. Going by this definition, there exists a large population of the urban poor who fall above this poverty line norm, but are still on the borderline and tethering on the brink of poverty. Moreover while a lot of importance is given in promoting SHG / MFI groups among the BPL category, it may be important to consider and encourage the APL category as well-since qualifying at a meager amount of USD 1.25(PPP) per day, is not much of a cushion and slipping lower is easily possible.

Comment [a1]: ?????

This may lead to the classic 'Catch-22' situation wherein such a section is not able to break-free of the malaise of poverty and dependence upon the informal means of finance since they are in a privileged position as per the definition of poverty but infact may be living in difficult conditions .Their condition and the role played by financial interventions in impacting their cause needs to be studied.

XI. Objectives of the Study:

A.

1. To find out the improvement in the socio-economic status of women due to access to microfinance.
2. To find out the awareness of rights and response to abuse (Eg: physical, emotional, and verbal)
3. To analyze the savings habits of the urban and rural poor women. (Eg any chit funds, savings at home).
4. To find out the extent of social participation subsequent to access to microfinance: (Eg: Ability to influence decisions such as improvement of home, education of the children, purchase and sale of ornaments, ceremonial functions etc).

B. To find out the perceptions of women (selected for the study) about the working of the SHG & MFI institutions

C. To analyze the problems in the delivery of financial products/services at the grassroots level.

XII. Hypotheses:

The following hypothesis will be tested to draw conclusions and facilitate study of objectives-

Hypothesis 1: SHG's and MFI's empower urban and rural poor women

XIII. Review of Literature:

Various studies have been undertaken by various Indian and foreign researchers in this context. Some of them are listed as follows:

Hulme and Mosely (1996) Access to microfinance has a positive impact, that this impact of microfinance is often larger for those close to the poverty line than those further away and that it increases with the duration of membership or in the intensity of loans as members begin to invest in assets rather than in consumption.

Goetz and Sen Gupta (1996) found that 63per cent of the women loan holders surveyed in their Bangladesh study of three microfinance programs had exercised "partial", "very limited" or "no control" in relation to loan use and concluded that they exercised little voice in the decision making. However they did not state whether the women's say in household decision making had increased or decreased with access to loans.

Rahman (1999) studied 120 borrowers of Grameen Bank in one village and reported that 18% experienced a decrease in violence while 70% reported an increase in violence within the household as a result of their involvement with the bank.

Aghion and Morduch (2000) have stated that group lending is just one part of a set of overlapping mechanisms employed to aid loan repayment and that it was not obvious that it's the joint liability in group lending that drives results and not other aspects such as public repayment, participation along with neighbors, acquaintances and the access to education. In other words in a group lending scheme where all villagers (safe and risky) know each other's type, safe borrowers will form groups among themselves while risky borrowers will join hands with other risky borrowers.

Two separate studies of SHARE microfinance [14](Todd 2001, Cortijo and Kabeer 2004) both found that while SHARE membership had a positive effect on boy's education; it had almost no effect on girls. Infact Cortijo and Kabeer found that mature SHARE members were more likely than new members to report involvement in waged labor and other forms of paid work as a primary occupation for girls and less likely to report schooling as a primary or secondary objective.

Kabeer and Noponen (2004) found that children of PRADAN group members were more likely to go to school compared to non-members. Moreover higher number of boys went to school than girls for both members and non members; the gender gap was smaller for PRADAN members.

C.S Reddy APMAS (2005) study concluded that SHG's can have an impact on civil society. However their ability to affect the change is directly linked to their financial sustainability. The study recommended a need for a well developed third party rating system for SHG's before they are linked with financial institutions. The study also recommended introducing robust MIS systems and a mechanism wherein the Government or the

[14] SHARE: is a regulated Non-Banking Financial Company (NBFC) providing financial and support services to the marginalized sections in society, particularly to poor rural and urban women across India. It is headquartered in Andhra Pradesh but operates in 19 states. As on July 31 2010, it had1 117 branches and served 3,152 customers. The amount outstanding was Rs 2,287 crores.

promoting institution bear the cost of intervention to stabilize and sustain the SHG's so as to prevent their failure.

Kabeer (2005) analyzed the result of the studies which were carried on under the aegis of BRAC[15] from Bangladesh, SHARE (Andhra Pradesh), CYSD (Orissa) and PRADAN (Jharkhand). She concluded that microfinance offers an important and effective means to achieve change on a number of fronts economic, social and political. However she felt that there was little evidence relating to the long term impact of microfinance since very few longitudinal studies were there that tracked the long term impact of microfinance. Broad policy guidelines and an environment conducive to foster equitable social development since there was no magic bullet to bring about radical transformation of the poor

Gaiha &Nandhi (2007) studied empowerment through SHG groups in Maharashtra. They found that savings mobilization through SHG's was highly effective. They also found that most of the loans taken by members of the SHG were being used largely for health, education and production related expenses. They also concluded that SHG's helped contribute in building trust, reciprocity and associational capital. Domestic violence was also reduced. However this came at a price, which involved putting in long hours by the SHG workers in running the institutions.

Nayak (2007) attempted to study empowerment through SHG's in the Kalahandi district of Orissa. They used questionnaires to interview 997 members of 80 SHG's. The study found that the nearly 89,000 families benefitted from the SHG bank linkage program and suggested strengthening of the sector.

Anitha and Revenkar (2007) attempted to study rural development through the growth of micro credit from 1992-1993 to 2003-04, and agency-wise SHG's linked on March 31, 2004. They concluded that the success of SHG's not only improved the economic status of women but also brought a lot of changes in their social status.

Vinayamoorthy and Pithoda (2007) studied the impact of SHG's in three villages of the Thiruvannamalla and Dharmapur districts of TamilNadu. A sample of 398 members of 20 SHG's was studied and their income, expenditure, savings of the members was examined and also the role played by the SHG's in providing that credit. They concluded that the economic activities of the SHG's were successful.

[15] BRAC: BRAC, based in Bangladesh, is currently (May 2010) the world's largest non-governmental development organization.[1] Established by Sir Fazle Hasan Abed in 1972 soon after the independence of Bangladesh, BRAC is currently present in all 64 districts of Bangladesh, with over 7 million microfinance group members, 37,500 non-formal primary schools and more than 70,000 health volunteers. BRAC is the largest NGO by number of staff employing over 120,000 people, the majority of whom are women. BRAC operates various programs such as those in microfinance and education in over nine countries across Asia and Africa, reaching more than 110 million people. The organization is 80% self-funded through a number of commercial enterprises that include a dairy and food project and a chain of retail handicraft stores called 'Aarong'. BRAC maintains offices in 14 countries throughout the world, including BRAC USA and BRAC UK. BRAC is a few years into their initiative to operate in ten African countries in the next ten years

Shobha (2008) studied the problems of the self employed women belonging to the Coimbatore Municipal Corporation. The study collected data for 400 self employed women and used the scaling technique. The study concluded that the problems faced by the beneficiaries of the Prime Ministers Rozgar Yojana were less severe than the non beneficiaries.

Murugan and Begum (2008) studied the barriers to women entrepreneurship. Their study was based upon primary data collected from the sample of 100 women entrepreneurs of the Chennai city. The study revealed that social and cultural barriers are a formidable block for the development of women entrepreneurship.

Vasanthakumari (2008) studied the role of micro enterprises in empowering women in Kerala. Her study was based on a sample of 328 micro entrepreneurs. The study revealed that these enterprises helped in empowering the rural women economically, socially and individually. The study recommended giving priority to the commercial viability of enterprises.

Gudaganavar (2008) made an attempt to examine the empowerment of rural women through SHG. They highlighted the region wise progress of SHG's from 1992-93 to 2006-07 and the employment of women through SHG's and concluded that empowerment was necessary for the development of women.

Shiralashetti and Hugar (2008) studied the district wise and bank wise linkage of SHG's in Karnataka state. Their study was based upon the secondary data collected from NABARD. They concluded that the SHG movement helped in poverty alleviation

Ganapathi and Sannasi (2008) made an attempt to highlight the factors influencing women entrepreneurs. They studied the common features of women entrepreneurs and concluded that women must be motivated to establish a business in the interest of the family income in particular and the national income in general.

Kumararaja (2009) studied the performance and the progress of SHG's in Tamil Nadu. It stated that there has been a steady progress in the number of SHG's and the loan sanctioned and recommended a timely and regular check of the micro-credit disbursed to SHG's

Lalitha and Prasad (2009) studied the Development of Women and Children in Rural Areas (DWCRA) program in the Gutur district of Andhra Pradesh. The study showed that the income of the individual after joining the DWCRA program increased and that in most cases (where women did not join the program) their potential was not fully tapped and utilized for the community.

XIV Research Gap:

A review of literature has shown that majority of the research work done has been focused on the rural sector. Urban poverty and its impact on women empowerment (or the lack of it) has been overlooked in most published papers. Moreover the proposed study aims at comparing financial interventions available through the SHG,MFI and a control group (with access to neither)and its impact on the rural-urban women belonging to the poor sections (APL and BPL) of the Pune district (Maharashtra)

XV Research Methodology:

The study is in its nascent stages; however the methodology proposed is as follows. Both primary and secondary data will be used for the purpose of this study. The sources of secondary data will be mainly NABARD and RBI publications.

Some of the steps involved have been listed as follows:

- The primary data with respect to the rural SHG's /MFI/control group will be collected in the Rajgurunagar / other rural areas of Pune district.
- An NGO /MFI operating in the Pune district will be approached for getting access to the women members for the purpose of administering the questionnaires. Non-participants (control group) will also be picked from this area ensuring that SC/ST's and OBC's are also included
- The Pimpri Chichwad Municipal Corporation (PCMC)'s women welfare department will be contacted and a list of the APL/BPL SHG's will be obtained. A random selection of participants who have availed at least one loan will be made. Non-participants (control group) will also be picked from this area ensuring that SC/ST's and OBC's are also included
- MFI data will be obtained from the organizations working in Pune City and sample selected accordingly.
- Officials at the District Level and Block levels (Khed Block-Pune district) including Director, Rural Development Agency, Block Development Officer, Extension Officer) will be interviewed to get an overview of the situation at the ground level
- Panchayat / village council members (such as Sarpanch, Panchayat members and Gramsevak's (4-5) will be interviewed because of their proximity to the implementation issues and to corroborate the data
- Leaders of the SHG Federations(8-10), animators(6-8) attached to the MFI's or banks will also be interviewed to get their inputs

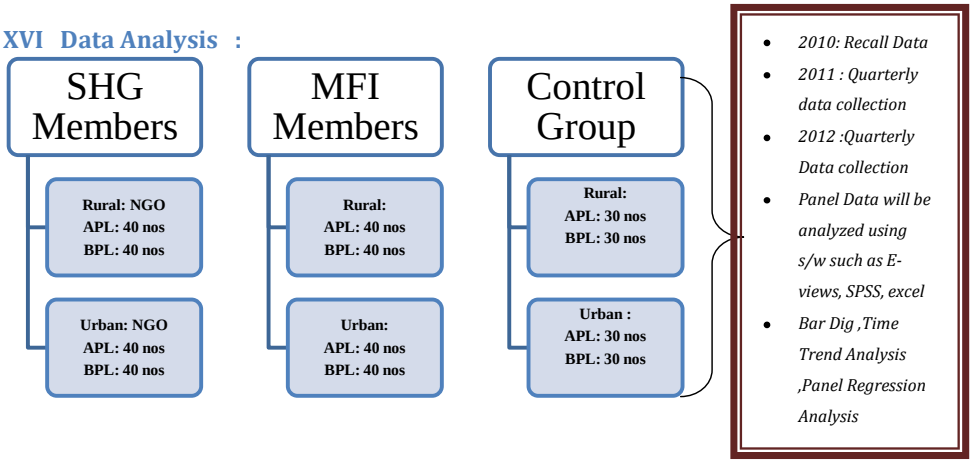
- Bank Officials belonging to NABARD (Pune RegionalOffice) as well as branch managers of special SHG branches (Eg: Indian Banks Microsatellite branch, which is the only one of its kind in Maharashtra will be interviewed).This will help to get the views, perspectives, experiences about the working of the SHG and MFI's.

A flowchart depicting the planned study methodology is given overleaf.

Data Collection Method: Primary data will be collected through specially designed (separate) questionnaires for the target sample of the women beneficiaries (SHG & MFI, control group). The questionnaires will be designed with the assistance of a statistician and separate questionnaires will prepared and used for the selected sample in each category viz SHG's, MFI, control group In order to ensure reliability and consistency, we plan to undertake a pilot study and analyze its results.

Respondent Profile: Active members of the SHG/MFI for at least 4 years.16. The respondents should have availed a loan at least once and exhibited a satisfactory repayment history. We plan to select women in the age group of 20-50 years (which typically represents the working age span of most women belonging to the poor strata of society).

XVI Data Analysis :



[16] A four year time span is selected since empowerment is a long term phenonmenon and the beneficial effects of microfinance would require a reasonable time (in our opinion a period of four years or more)to manifest.

XVII Conclusion:

For any bank, financial services institution long term growth is dependant on the manner that it approaches and taps untapped markets. In the Indian context, this effort has largely been led by the PSU Banks and MFI's. It's imperative that the requirements of this section be matched with the needs at the grassroots level in a transparent and efficient way, rather than looking at imposing statutory regulations and mandates. Microfinance is often portrayed in literature as a tool that allows individuals excluded from the financial system to get access to sources of funding i.e. as a means of combating exclusion and poverty. We hope that the impact is far greater and enduring and this study is an endeavor in understanding the 'fortifying' effects of microfinance. We hope that the findings of the study will be beneficial to all that parties involved viz (banks, RBI, MFI's and the beneficiaries) in designing products that cater to the needs that exist at the bottom of the pyramid as a innovative mechanism to propel capital assimilation, local entrepreneurship and economic growth for the entire communities. Capacity building, empowerment and an ability to deal with the unforeseeable future we hope will change and make sustainable banking at the bottom of the pyramid into a reality.

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